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Corrected version

**United States' Submission to Japan on Deregulation and Competition Policy Underscores
the Need for Japan to Adopt Bold New Measures**

United States Trade Representative Charlene Barshefsky today announced that the United States Government's submission to Japan on deregulation and competition policy will be presented formally to Japanese Foreign Minister Kono by Ambassador Thomas Foley in Tokyo on Wednesday, October 6. The 45-page submission, which calls on Japan to adopt bold regulatory reforms in key sectoral and structural areas of the Japanese economy, builds on the progress achieved by both governments under the bilateral Enhanced Initiative on Deregulation and Competition Policy. The key sectors addressed by the U.S. submission include: telecommunications, medical devices and pharmaceuticals, housing, financial services, energy, distribution, legal services, competition policy, and transparency.

"The Japanese Government must continue to vigorously move forward in implementing fundamental regulatory reforms, deregulating broad segments of its economy, and establishing the rules and resources needed to ensure effective competition policy and transparency in its administrative practices," stated Ambassador Barshefsky. "The United States' experience with deregulation over the past 20 years demonstrates the tangible and positive benefits that result when the interests of consumers are placed at the top of regulatory policy objectives. Japan's challenge, to promote job creation, reward entrepreneurship, and bring the benefits of deregulation to the Japanese consumers, is to take bold actions to further open its economy."

In May 1999, President Clinton and Prime Minister Obuchi announced the Second Joint Status Report under the Enhanced Initiative on Deregulation and Competition Policy, and agreed to continue their efforts for a third year. Both Governments set March 31, 2000 as the target date for the issuance of a Third Joint Status Report which will detail new deregulation measures designed to further open Japan's economy and increase market access for U.S. and foreign firms.

Background: The following highlights key proposals from the United States submission to Japan:

Telecommunications: Pursuant to measures contained in the Second Joint Status Report, it is imperative that Japan further reduce interconnection rates as much as possible and ensure that the relationship between retail rates and interconnection rates does not impair local competition. This year, the United States calls on Japan to adopt a “**Telecommunications Big Bang**,” dedicated to fundamentally re-orienting Japan’s telecommunications policies and regulatory framework to the needs of a competitive, digital era. At present, Japan's institutional regulatory oversight capabilities in the telecommunications sector are ill-suited to the fast-changing needs of a technology and Internet-driven economy -- as demonstrated by the persistence of high prices and the slow introduction of the technologies and services that are revolutionizing communications and electronic commerce elsewhere. The U.S. seeks to speed the transformation of capital investments into growth-producing services by eliminating the widespread restraints (exercised mainly by NTT and its affiliates) that prevent new entrants from gaining access to essential inputs--facilities, services, rights-of-way--that new entrants need to deliver next-generation services to Japanese consumers.

Medical Devices and Pharmaceuticals: Under the Enhanced Initiative, the Government of Japan recognized the value of innovation of pharmaceuticals so as to allow such pharmaceuticals to be introduced into Japan for the benefit of Japanese patients, and to shorten the approval process for new drug applications to 12 months by April 2000. In addition, the United States’ proposals this year call on Japan to introduce concrete measures to: (1) increase the availability of innovative pharmaceutical products; (2) further improve the predictability of Japan’s medical device and pharmaceutical approval and reimbursement processes; (3) reward performance enhancements for medical devices; and (4) ensure transparency in the development of new medical device and pharmaceutical pricing rules.

Energy: Per the Second Joint Status Report, Japan will implement in July 2000 amendments to the Electric Utility Industry Law to adopt certain performance-based standards and allow self-inspection for standards conformity for electrical equipment used in power facilities. The U.S. proposals in the energy sector in this year’s submission to Japan are designed to further assist in the successful transition from a monopolistic to a competitive energy sector in Japan by: (1) reducing regulatory and other barriers that discourage investment and market entry; (2) implementing appropriate incentives and disciplines for pro-competitive behavior; and (3) providing for full transparency in setting and implementing rules and procedures so that appropriate and fair rules are set and rational business decisions can be made.

Housing: As agreed under the Enhanced Initiative, by June 2000, Japan must establish and implement a system to allow nationwide acceptance and evaluation of test data for building methods and materials. This year, in addition to continued focus on core forest products issues, the United States has put forward proposals to address land use policy and building code issues, including proposals to revise Japan’s Land and House Lease Law (*Shakuchi Shakka Ho*), the Building Standards Law, and housing finance policies in order to promote home renovation and construction of quality rental housing. In addition, the United States has proposed new measures addressing barriers to non-wood housing materials.

Financial Services: Japan’s Financial Services Big Bang initiative is fundamental to raising the efficiency and competitive of Japanese financial markets, and supporting Japan’s future growth. We have welcomed and taken an active interest in this initiative, following on from our 1995 financial services agreement, and as a part of the Enhanced Initiative. As Japanese financial

markets become more open and competitive, ensuring a transparent regulatory and supervisory process becomes even more critical. the financial services proposals in this year's U.S. submission will both support the development of financial markets and allow Japan to take maximum advantage of the expertise that has been built up world-wide.

Distribution: Japan agreed under the Enhanced Initiative to closely monitor local governments' implementation of the Large-Scale Retail Store Location Law (*Daiten-Ricchi Ho*) to ensure that the purpose of the new Law is not impeded, to establish a contact point in MITI to facilitate resolution of complaints, and to take appropriate measures to facilitate resolution of complaints from any interested party regarding the application of the Law. In the U.S. submission this year with regard to implementation of the *Daiten-Ricchi Ho*, the United States urges Japan to: (1) ensure maximum transparency by using public comment procedures when adopting or issuing implementing measures; (2) take concrete measures to receive and facilitate resolution of complaints from any interested party regarding the application of the *Daiten-Ricchi Ho*; (3) undertake a broad education campaign of local government officials responsible for implementing *Daiten-Ricchi Ho*; and (4) ensure that MITI and the relevant local governments take all necessary and appropriate measures to remove obstacles faced by any store opener in opening a large-scale retail store during the transition phase from the old *Daiten-Ho* to the *Daiten-Ricchi Ho*. With respect to import processing, in order to achieve processing times comparable to other major countries, the United States urges Japan to continue to modernize and expedite its customs clearance procedures by, among other things, (1) improving pre-clearance procedures between Japanese customs administration and all other relevant Japanese Government agencies; and (2) establishing a "one-stop office" to coordinate simultaneous processing of all legal permits required for importation.

Competition Policy: In the Second Joint Status Report, Japan acknowledged that *min-min kisei* or "private regulations" must not become substitutes for former government regulations and agreed to actively eliminate market entry restrictions by trade associations or other entities when they violate the Antimonopoly Law. In addition, the United States proposes that Japan strengthen its competition policy regime by: (1) ensuring the continued independence of the JFTC following Japan's central government reorganization in 2001; (2) strengthening the JFTC's criminal investigative powers and procedures; (3) increasing efforts by the National Policy Agency to investigate criminal big rigging, i.e., *dango*, in local government procurement; and (4) introducing legislation to permit private parties to seek court orders to stop illegal anticompetitive conduct.

Transparency: Following strong U.S. advocacy, Japan adopted public comment procedures designed to increase the transparency of its regulatory processes, and agreed to follow-up on the implementation of these procedures to ensure that they are being properly implemented. This year, the United States calls on Japan to institute a government-wide policy requiring a "Regulatory Impact Analysis," including the application of cost/benefit analyses, on proposed regulatory changes which have a significant economic impact. The U.S. is also putting forward detailed proposals to improve and streamline Japan's cumbersome licensing and approvals processes.